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GOVERNMENT EMPLOYEES HEALTH ASSOCIATION, INC.
(G.E.H.A.)

Initial Actuarial Report

Survey of Financial Experience and Benefit Levels

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A. PURPOSE

The purpose of this report is to set forth the results of an initial study covering the following three items:

1. Review of the Recent Financial Experience.
2. Outline of Benefits Currently Available.
3. Assessment and Evaluation of Present Coverages.

Accordingly, the next three sections of the report take up each of these three items respectively.

B. REVIEW OF FINANCIAL EXPERIENCE

Certain information was made available in graph form, and subsequently certain additional information was requested for the two-year period 1955 and 1956. A review of this information brought out a number of items that may be worth noting, many of which are generally known, but some of the more significant of which will be mentioned. In this connection, Table 1 on the next page sets forth the applicable experience for the two year-period 1955 and 1956.

The Hospital and Surgical Plan underwritten by Mutual of Omaha was initiated in 1948. Premiums paid exceeded claims until the latter part of 1953 when claims began to exceed premiums and this continued until the middle of 1955. For the two-year period of 1955 and 1956 the premiums exceeded claims by \$88,817.25, which involved a retention by the insurer of 15% of the premiums paid for this period. However, for 1956 alone the premiums came to \$336,110.82 versus benefits disbursed of \$293,690.67, and for the first five months of 1957 premiums were \$256,860.72 versus benefits of \$252,508.20. We have no information which indicates

why the claims are increasing relative to the premiums but there does exist the possibility that the claims may again exceed the premiums before the year 1957 is over. From information made available, the underwriter's "alert" occurs when claims equal or exceed 80% of premiums.

Table 1

G. E. H. A.

Financial ExperienceFor Period 1 January 1955 through 31 December 1956

<u>Type of Insurance</u>	<u>Premiums to Underwriter</u>	<u>Claims Paid</u>	<u>Dividends</u>	<u>Retained by Underwriter</u>	<u>Retention as % of Premium</u>
MUTUAL H. & S.	\$ 587,980.25	\$499,163.00	None	\$ 88,817.25	15.1%
SPEC. DISEASES	6,236.25	87.09	None	6,149.16	98.6
INC. REPL.	8,825.21	385.72	None	8,439.49	95.6
UBLIC LIFE	260,840.87	72,000.00	\$112,571.67	76,269.20	29.2
WAEPA *	210,570.98	120,000.00	None	90,570.98	43.0
TRAVEL-MATIC	3,968.00	None	None	3,968.00	100.0
AIR FLIGHT	6,497.00	None	None	6,497.00	100.0
TOTAL	\$1,084,918.56	\$691,635.81	\$112,571.67	\$280,711.08	25.9%

For the Specified Diseases, Special Income Replacement Plan, Travel-Matic and Air Flight, premiums have come to \$25,526.46 in the two-year period versus claims of only \$472.81. The claims being relatively negligible and no dividends having been paid, there has been practically a 100% retention by the insurance company.

With respect to the life insurance coverages, there are the two types, UBLIC, underwritten by an affiliate of Mutual of Omaha, and WAEPA (underwritten by the Equitable Life Assurance Society). A member of GEHA can be covered by UBLIC subject to his paying the one-dollar membership fee and paying premiums for the

* The magnitude of this retention leads us to wonder if our information is complete, especially since the Equitable is a mutual company.

class (amount) of insurance desired, and a member of GEHA may be covered by WAEPA for an additional \$2 membership fee required by WAEPA and the payment of premiums based on his age and coverage (no choice of amount of benefits permitted, the amount being dependent on the level of earnings).

Under UBLIC, premiums to the underwriter have amounted to over \$260,000 in 1955 and 1956 combined, with claims paid of \$72,000 and with dividends paid of some \$112,000. The balance of \$76,000, or approximately 29% of the premium, has been retained by the insurance company. It appears that the UBLIC coverage may be rapidly replacing the WAEPA coverage since 1954, for there has been a downward trend in WAEPA coverage since the advent of UBLIC. For the two years 1955 and 1956, however, premiums for WAEPA have amounted to a little over \$210,000 versus claims of \$120,000, with WAEPA* retaining the balance or some 43% of the premiums.

Finally, with respect to the financial experience for the two years 1955 and 1956 it is noted that receipts from employees came to \$1,231,761.12 versus premiums paid to the underwriters of \$1,084,918.56, and we have been advised that this is caused by a lag in time with respect to turning over the premiums to the underwriter. However, the difference involved of \$146,842.56 for the two-year period is more than we would expect to find unless there has been a substantial increase in coverage. From the figures furnished to us it is apparent that there was considerable growth in coverage over the year 1956 and this may be the cause for the excess of collections equal to 13.5% of the premiums remitted to the insurers.

C. REVIEW OF BENEFITS

At the end of this report you will find Table 2 which sets forth in outline form the coverages and premiums under GEHA. The following is a synopsis of the booklet "Your Health and Life Insurance Program" dated 1 October, 1956.

* viz, The Equitable.

"1. Please Read This First!

GEHA, Inc. = Government Employees Health Association, Inc. - membership fee of \$1.00 is required.

Mutual of Omaha - Group Hospital and Surgical Benefits Policy

- Specified Diseases Policy
- Income Replacement Policy
- Two Travel Insurance Policies

United Benefit Life Insurance Co. of Omaha (Mutual's companion Company)

(UBLIC) - one of the Group Term Life Insurance Policies

Equitable Life Assurance Society - the other Group Life Term Insurance policy (requires membership in WAEPA in addition to membership in GEHA).

2. Hospitalization and Surgical Benefits Plan (Mutual of Omaha)

Eligibility - All eligible employees within 60 days after EOD or return from overseas (PCS)

Monthly Premiums - Single (member)	\$2.70
Family	7.40

(Children 14 days - 19 years, 24 if in school and dependent)

Coverage - everything, it seems, including pre-existing conditions, but excluding FECA claims and outside-of-hospital expenses.

a. Hospital Service Benefits

- (1) Up to \$13.50 per day (90 days) room and board;
- (2) \$202.50 Hospital Extras plus 75% of extras up to \$5,000 of benefits 1/;
- (3) Normal Maternity - \$10 (8 days) plus up to \$20 for anesthetics;
- (4) Abnormal Maternity - see 1 and 2;

1/ \$135 Overseas.

a. Hospital Service Benefits (continued)

(5) Tonsillectomies and Adenoidectomies - Paid under Nos. 1 and 2 above.

(6) & (7) Out-Patient Emergency - Up to \$202.50 1/within 24 hours of accident.

(8) Ambulance - Up to \$25.00.

(9) Anesthesiologist - up to \$25.00.

1/ \$135 Overseas.

b. Surgical Benefits in this Country and Overseas

\$250.00 schedule.

c. Upon termination of employment, may convert to an individual policy if under age 75.

3. Specified Diseases Policy

a. A membership fee of \$1.00 if not already a member of GEHA

b. Premiums \$ 4.00 per year - single

10.00 per year - family

c. Polio, leukemia, scarlet fever, diptheria, etc.

d. Must incur disease while insured.

e. Covers all expenses up to \$5,000 for each incidence, including transportation.

4. Special Income Replacement Plan
(Preferred Risk)

a. Preferred risks only are eligible, and \$1.00 must be paid if not a member of GEHA.

b. Class 1 - \$25 per week benefit - Annual premium \$25.70 2X, 3X, 4X classes also (2, 3, 4)

c. Accident Benefits - 1st payment 91st day after accident.

Total Disability - full benefits, even for life.

Partial disability - 1/2 benefit up to 13 weeks.

4. Special Income Replacement Plan (Continued)
(Preferred Risk)

- d. Sickness Benefit - 1st payment 91st day of disability, weekly benefit payable up to ten years.
- e. Covered if a passenger in a regular passenger aircraft.
- f. In addition, up to one week's payment to doctor treating injury.
- g. Waiver of premiums after 6 months of disability.
- h. Exclusions: war, suicide, pregnancy, aircraft except as a passenger.
- i. No conversion.

5. Life Insurance Plans

A. UBLIC

- (1) Eligibility - up to age 60, \$1.00 if not GEHA member.
- (2) Full benefits and premiums to age 65, 1/2 thereafter. War death not covered if member of military services of any country.
- (3) Equal amounts of life insurance and accidental death benefits.
- (4) 5 - multiple classes (Class 1 - \$3,000). Monthly premium of \$.61 per \$1,000.
- (5) Disability waiver of premiums prior to age 60.
- (6) The accidental death benefit is for death only and not for dismemberment also.
- (7) Conversion privilege to individual policy.
- (8) Detailed military personnel are eligible.

B. WAEPA - Life Insurance - Equitable Life Assurance Society
(War Agencies Employees Protective Association)

- (1) Detailed military personnel are not eligible.
- (2) Coverage: Base pay less than \$3,200 = \$7,500 life insurance
+ \$12,500 A.A.D.B.

(3) Monthly premium varies by attained age:

	<u>\$7,500 Base</u>	<u>\$15,000 Base</u>
Up to age 40 inclusive	\$4.17	\$ 8.33
41 - 50 inclusive	5.21	10.42
51 - 65 Years	6.25	12.50

(4) May terminate coverage at any time.

(5) Conversion privilege.

(6) May be applied for at any time, \$2.00 fee, satisfactory health statement or medical examination.

6. Travel Insurance - (Mutual of Omaha)

A. "Travel-Matic"

- (1) Coverage any place in the world as a passenger upon boarding any public transportation vehicle or as a passenger on MATS plane.
- (2) Exclusions: War and suicide.
- (3) Dependents may also apply.
- (4) Insured in multiples of \$5,000 of principal sum (5X up to 10X) with medical benefit of \$50.00 per \$1,000 of principal sum.
- (5) Full benefit, death or double dismemberment, 1/2 for single dismemberment.
- (6) Annual premium - constant \$1.75 plus \$.65 per \$1,000.
- (7) Principal Sum increases 5% each 12 months (up to 25% increase).
- (8) The amounts are inclusive of other similar insurance with Mutual of Omaha.

B. Air Flight Trip Insurance

- (1) Covers one-way or round trip to any place in the world via MATS or commercial airlines operating on a regular schedule.

B. Air Flight Trip Insurance (Continued)

- (2) Similar schedule as A, except units are multiples of \$12,500 Principal Sum up to 5X. Annual premium depends on zone of flight. U. S. equals \$.50 fee for \$12,500 unit.
- (3) Principal Sum payable for loss of life, limb or eyesight from accidents.
- (4) Dependents are also eligible to apply for coverage.

Certain of the contracts with the underwriters were made available, and these contracts have been checked to the extent possible against the outline indicated above.

D. ASSESSMENT AND EVALUATION

As already indicated, Table 1 shows the information made available with respect to the retention by the underwriter which has already been noted in respect of the two-year period 1955 and 1956. Considering the total package of benefits and premiums paid of over a million dollars for the two-year period, we find that the retention has been in excess of \$280,000, or approximately 26% of premiums paid. In our opinion, this retention is excessive for the benefits available and may be accounted for by the \$90,000 retained by WAEPA and the fact that only UBLIC has paid any dividend. However, even considering UBLIC alone, the retention of 29.2% appears to be excessive for the amount of premium involved. Where term life insurance calls for premiums of this magnitude (UBLIC alone), the retention by the insurance company frequently runs to about one-half of what it has been (i.e., about 15%). If UBLIC and WAEPA life insurance coverages were combined, then for the premium involved together the retention might be more nearly in the magnitude of 10% of total premium paid. Considering the total premium level of some \$500,000 per year, the retention by the underwriter might well be lower than 10% of premium

paid, where one contract and one underwriter is used. The point might be made by the underwriter that the "unknowns" are perhaps greater for these coverages than for the customary group life plans. This factor seems to be met by the relatively high premium levels (in relation to claims) and should not be too significant a factor in dividend or rate credit determinations. This points up the possible financial advantage of combining coverages in one contract. Generally, the higher the premium the lower the retention by the insurance company, and this is because there are a number of expenses that are on a per policy basis which become of relatively less significance as the premium increases.

Turning to the question of coverages, let us consider first the hospital, surgical and other medical benefits. A fairly recent type of extended coverage that is being offered in this connection is what is known as "major-medical" insurance. In our opinion, "major-medical" is a very desirable coverage.

In the first place it has great appeal to employees because it insures them against illnesses or accidents which could be a "catastrophe" financially to them. There is, thus, more urgency to have protection against this type of contingency than against the usual less expensive illnesses which a person can budget for or otherwise meet out of current income or savings. In the second place, it is an all-inclusive coverage, i.e., all illnesses would be covered so that there would be no need for a "Specified Diseases" coverage. In the third place, Major Medical could be added to the existing coverages with only a relatively small increase in premium. And finally, more and more employers are making major medical available to their employees. The Government is also becoming interested in the problem; a Bill (S.2339) introduced in the last session of Congress would have made major medical available to Federal employees and their dependents.

Under one arrangement - a superimposed plan - major-medical takes over after the usual hospital and surgical insurance to provide for additional benefits, after a deductible, on a co-insurance basis, up to some fixed dollar maximum amount. In this connection, it should be noted that it is possible to obtain comprehensive "major-medical" coverage which covers all hospital and surgical and medical benefits in excess of a deductible, also on a co-insurance basis and also with a maximum benefit under the plan.


Relative to group life insurance, the employee has four sources of coverage, the Federal Civil Service benefit (to spouse and children), the Federal group life, WAEPA and UBLIC. Considering an employee earning just under \$10,000 and the last three of the four coverages, he would be eligible for \$10,000 of Federal group life (costing him \$65 per year and with the Federal government paying a maximum amount of \$32.50 in addition), \$15,000 of WAEPA (costing him \$100 per year if he is under age 41), and up to \$15,000 of UBLIC (costing him up to \$109.80 per year). This would give him a total of \$40,000 of life insurance protection, plus some accidental death and dismemberment benefits, and you will note the Federal group life insurance is somewhat less expensive to the employee than the other coverages. Per \$1,000 of insurance the Federal group life costs him \$6.50 per year, as compared with a minimum of \$6.67 for WAEPA and \$7.32 for UBLIC. Therefore, it would appear that both WAEPA and UBLIC are slightly more expensive to the employee from the standpoint of employee premiums than the Federal group life, although each of these coverages provide for certain accidental death benefit payments, at moderate additional cost in the case of UBLIC, of a sort that do not appear to be included in the Federal group life program (although the Federal plan provides certain other benefits - such as paid-up during retirement - which the other coverages do not have - and in addition the Government contributes part of the cost).

One question might be whether or not \$40,000 of possible group type of life insurance protection is considered excessive for an employee earning \$10,000 a year. In this connection it is interesting to note that a number of states (including D.C.) impose a \$20,000 limit on the amount of group life insurance that may be underwritten by a policy contracted in the state's jurisdiction. However, some states, notably New York and Michigan, have removed this limit on the amount of group life insurance that may be provided any one person. If consideration is to be given to combining life insurance coverages, this underwriting problem might have to be resolved, and this may pose quite a problem, but the possible savings (i.e., because of the reduction in retentions) may make it worthwhile to explore.

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If, in connection with this Initial Actuarial Report, you have any other investigations which you would like us to conduct, or if any questions arise in regard to the instant report, we will be glad to proceed according to your instructions.

Respectfully submitted,




William W. Fellers,
Fellow - Society of Actuaries

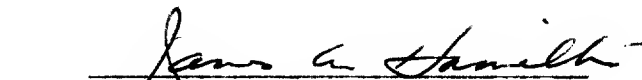

James A. Hamilton,
Fellow - Society of Actuaries

Table 2

GOVERNMENT EMPLOYEES HEALTH ASSOCIATION, INC.

Annual Premiums if Member Had Coverage Under all Plans
(excludes \$1.00 membership fee)

	<u>Minimum Coverage</u>		<u>Maximum Coverage</u>	
	<u>Coverage</u>	<u>Annual Premium</u>	<u>Coverage</u>	<u>Annual Premium</u>
*1. Hospital and Surgical Expenses				
Daily Benefit	\$ 13.50	\$ 32.40	\$ 13.50	\$ 32.40
Maximum Surgical	250.00		250.00	
*2. Specified Diseases	up to \$5,000 per incidence	\$ 4.00	up to \$5,000 per incidence	\$ 4.00
3. Special Income Replacement (weekly benefit)	\$ 25.00	\$ 25.70	\$ 100.00	\$102.70
4. Life Insurance and Accidental Death (UBLIC)	\$ 3,000.00	\$ 21.96	\$15,000	\$109.80
5. WAEPA Life (Equitable)	\$15,000.00	\$125.00 <u>1/</u>	\$15,000	\$125.00 <u>1/</u>
6. Travel-Matic	\$25,000	\$ 18.00	\$50,000	\$ 34.25
*7. Air Flight <u>2/</u>	\$12,500.00	\$.50 <u>2/</u>	\$62,000	\$ 2.50 <u>2/</u>
		\$227.56		\$410.65

1/ Attained Ages 41 - 50 and earning over \$3,200 a year. Slightly smaller premiums for ages up to 40 and slightly larger premiums for ages 51 - 65. The accidental death benefit and dismemberment coverage is for an additional \$25,000 of insurance.

2/ Domestic Zone flights; other Zones are higher. Premiums shown are for one-way or round trip.

* Dependents are also eligible at an extra premium.